

NOVEMBER/DECEMBER 2023

**DCM12/GCM12 — ACCOUNTING FOR
MANAGERIAL DECISION**

Time : Three hours

Maximum : 75 marks

SECTION A — (10 × 2 = 20 marks)

Answer ALL questions.



1. Point out any four functions of management accounting.
2. "Management accounting is a decision making system" comment.
3. Define budgetary control.
4. What do you understand by master budget?
5. State the analytical methods and devices used in analyzing financial statement.
6. Is depreciation a source of funds? Give reasons in support of your answer.
7. What is cost volume profit analysis?

18. Following are the comparative Liabilities and assets of Anton Co. Ltd as at December 31st

Liabilities	2020	2021	Assets	2020	2021
Share capital	10,00,000	11,00,000	Goodwill	80,000	60,000
Debentures	5,00,000	3,00,000	Land and Buildings	4,20,000	6,60,000
General Reserve	2,00,000	2,00,000	Closing stock	2,50,000	2,10,000
Surplus A/c	1,10,000	1,90,000	Plant and Machinery	6,00,000	8,00,000
Income tax provisions	40,000	1,10,000	Debtors	3,00,000	2,40,000
Trade creditors	50,000	40,000	Cash	3,00,000	24,000
Bills payable	20,000	30,000			
Provision for doubtful debts	30,000	24,000			
	<u>19,50,000</u>	<u>19,94,000</u>		<u>19,50,000</u>	<u>19,94,000</u>

Additional information:

- During the year 2021 a part of machinery costing Rs. 7,500 (accumulated depreciation there on being Rs. 2,500) was sold for Rs. 3,000.
- Dividend of Rs. 1, 00,000 was paid during the year ended December 2021.
- Income tax of Rs. 50,000 was paid during the year 2021.

- The sales turnover and profit during two years were as follows:

Year	Sales	Profit
2020	1,40,000	15,000
2021	1,60,000	20,000

Calculate:

- P/v ratio
- Breakeven point
- Sales required to earn a profit of Rs. 40,000
- Fixed expenses and
- Profit when sales are Rs. 1,20,000.

Or

- A firm can purchase a spare part from an outside source @ Rs. 11 per unit. There is a proposal that the spare part can be produced in the factory itself. For this purpose a machine costing Rs. 1,00,000 with annual capacity of 20,000 units and a life of 10 years will be required. A foreman with a monthly salary of Its 500 will have to be engaged. Material required will be Its 4.00 per unit and wages Rs. 2.00 per unit. Variable overheads are 150% of direct labour. The firm can easily raise funds @10% pa. Advice the firm whether the proposal should be accepted.

13. (a) From the following balance sheets of Moon Ltd; you are required to prepare a comparative balance sheet:

Balance sheet as on 31st December (Rupees in Lakhs)

Liabilities	2020	2021	Assets	2020	2021
Equity capital	400	400	Land and Buildings	400	370
6% Preference capital	300	300	Plant and Machinery	400	410
Reserves	200	245	Stock	200	300
8% debentures	100	150	Debtors	200	300
Bills payable	50	75	Cash	100	140
Sundry creditors	250	350			
	<u>1,300</u>	<u>1,520</u>		<u>1,300</u>	<u>1,520</u>

Or

- (b) From the following balance sheet, you are require to calculate cash from operations:

	31.12.2020	31.12.2021
	Rs.	Rs.
Profit and Loss A/c balance	50,000	3,10,000
Debtors	90,000	84,000
Creditors	40,000	52,000
Bills Receivable	24,000	30,000
Prepaid expenses	3,200	2,800
Bills Payable	36,000	32,000
Outstanding expenses	2,400	3,200
Outstanding income	1,600	1,800
Income received in advance	500	600

- (d) Depreciation for the year 2021 was provided as follows:

- (i) Land and Building Rs. 10,000;
(ii) Plant and machinery Rs. 50,000.

You are required to prepare:

- (1) A schedule of changes in working capital and
(2) A statement showing the sources and application of funds.

19. A multi product company has the following costs and output data for the last year

	Product		
	R	S	T
Sales mix	40%	35%	25%
Selling price	Rs. 20	Rs. 25	Rs. 30
Variable cost per unit	Rs. 10	Rs. 15	Rs. 18
Total fixed cost			1,50,000
Total sales			5,00,000

The company proposes to replace Product T by Product M. Estimated cost an output data are:

	Product		
	R	S	M
Sales mix	50%	30%	20%
Selling price	Rs. 20	Rs. 25	Rs. 28
Variable cost per unit	Rs. 10	Rs. 15	Rs. 14
Total fixed cost			1,50,000
Total sales			5,00,000

Analyze the proposed changes and suggest what decision of the company should take.

15. (a) The share of a leather company are selling at Rs. 30 per share. The firm had paid dividend at the rate of Rs. 3 per share last year. The estimated growth of the company is approximately 5% per year.

- (i) Determine the cost of equity capital of the company
- (ii) Determine the estimated market price of the equity shares if the anticipate growth rate of the firm raises to 9% and falls to 3%.

Or

- (b) The value for two firms Albert and Kennedy in accordance with the traditional theory are given below:

	Albert Rs.	Kennedy Rs.
EBIT	3,00,000	3,00,000
Interest	40,000	—
Earning for equity shares	2,60,000	3,00,000
Equity capitalization rate (K_e)	13%	12%
Market value of equity	20,00,000	25,00,000
Market value of debt	8,00,000	—
Total value of the firm	28,00,000	25,00,000
WACC (K_o)	10.71%	12%

Compute the value of the firms Albert and Kennedy and equity capitalization rates as per MM approach. Assume that

- (i) Corporate Income tax do not exist, and
- (ii) The equilibrium value of K_o is 12.5%.

SECTION C — (3 × 10 = 30 marks)

Answer any THREE questions.

16. What are the objectives of management accounting? Distinguish between management accounting and cost accounting.
17. A Glass manufacturing company requires you to calculate an present the budget for the next year from the following information:

Sales Toughened glass	= Rs. 3,00,000
Bend toughened glass	= Rs. 5,00,000
Direct Material cost	= 60% of sales
Direct Wages	= 20 workers @ Rs. 150 per month

Factory Overheads:

Indirect labour:

Works manager: = Rs. 500 per month

Foreman = Rs. 400 per month

Stores and spares = 2½% on sales

Depreciation on machinery = Rs. 12,600

Light and power = Rs. 5,000

Repair and Maintenance = Rs. 8,000

Other sundries = 10% on direct wages

Administration, selling and distribution expenses = Rs. 14,000 p.a.